Are the Returns of ESG Funds Good Enough for Long-Term Investors?

In an era where investing has become trickier due to the extremely uncertain economic environment, long-term investors are even more careful in evaluating the relative success of their investment decisions. What has made things more interesting is the **focus on ESG investments - E**nvironment, Social, and Governance-focused investments that have attracted increasing attention in the past few years. As the **Sustainable Finance Disclosure Regulation comes into force in March**, ESG investing will garner even more attention in the coming months.

Is ESG investing worth it?

One of the biggest criticisms of ESG investing is that it **sacrifices on returns**. When energy and banking stocks were popular among investors, the relative returns on ethical funds were not attractive. It was difficult for people to give up those attractive returns and choose the less rewarding ethical investments. However, since the pandemic, **traditional stocks have suffered** and **tech stocks have soared**. Since many ethical funds are invested in these tech stocks, their returns have increased to attractive levels, making the investment certainly worth it.

Money Marketing Crown Ratings

Money Marketing recently published its Crown Ratings, created to judge the success of ESG funds, for the first time. The report assigns a rating from 1 to 5, with 1 indicating the worst performer and 5 indicating the best. The **top 10% of funds receive a 5 crown rating**, **based on volatility, alpha, and consistency**. The funds are judged based on their performance since inception with a qualifying period of at least 3 years.

According to the report, **one-fifth of all the ESG funds eligible for a rating achieved a 5 crown rating**. Two of the top funds were Federated Hermes Impact Opportunities Equity and Fundsmith Sustainable Equity Funds. The former boasted a healthy **return of 25%** during the last 12 months whereas the latter **returned 17.97%.**

Out of all the 5 crown-rated funds, **ESG funds now have an 8.44% share**. This is quite an achievement when one considers that only 5% of all the funds considered for ratings were ESG funds.

The **future for ESG funds looks bright** as the negative effects of the COVID-19 pandemic continue to wreak havoc on the global economy. Now more than ever, the time is right for sustainable investing to become the norm. The general conditions for ESG funds are likely to improve in the coming years while traditional stocks look to have a tough time ahead.